

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2009

DEGREE / DIPLOMA AND YEAR OF STUDY : **DIPLOMA IN COMMERCE 111**

TITLE OF THE PAPER : **FINANCIAL ACCOUNTING 11**

COURSE CODE : **AC 301 (M) MAY 2009 (Full-time)
IDE AC 301-1&2 (M) MAY 2009 (Part-time)**

TIME ALLOWED : **THREE (3) HOURS**

INSTRUCTIONS

- 1 **There are four (4) questions, answer all.**
- 2 **Begin the solution to each question on a new page.**
- 3 **The marks awarded for a question are indicated at the end of each question.**
- 4 **Show your necessary workings.**
- 5 **Calculations are to be made to two decimal places of accuracy, unless otherwise instructed.**

NOTE: You are reminded that in assessing your work, account will be taken of accuracy of the language and the general quality of expression, together with layout and presentation of your answer.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR / SUPERVISOR.

SPECIAL REQUIREMENT: NONE

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QUESTION 1:

Study the following financial statements of two similar retail stores for the year 30 April 2009 and then answer the questions which follow:

Financial statements for year ended 30 April 2009:

	<u>Bayanda Retailers</u>		<u>Banele Retailers</u>	
	E	E	E	E
Profit and loss accounts				
Sales		80,000		120,000
Less cost of sales:				
Opening stock	25,000		22,500	
Add purchases	<u>50,000</u>		<u>91,000</u>	
	75,000		113,500	
Less closing stock	<u>15,000</u>	<u>60,000</u>	<u>17,500</u>	<u>96,000</u>
Gross profit		20,000		24,000
Less:				
Depreciation	1,000		3,000	
Other expenses	<u>9,000</u>	<u>10,000</u>	<u>6,000</u>	<u>9,000</u>
Net profit		<u>10,000</u>		<u>15,000</u>

Balance sheets as at 31 April 2009

	<u>Bayanda Retailers</u>		<u>Banele Retailers</u>	
Fixed assets				
Equipment at cost		10,000		20,000
Less depreciation to date		<u>8,000</u>		<u>6,000</u>
		2,000		14,000
Current assets				
Stock	15,000		17,500	
Debtors	25,000		20,000	
Bank	<u>5,000</u>		<u>2,500</u>	
	45,000		40,000	
Current liabilities				
Creditors	<u>5,000</u>	<u>40,000</u>	<u>10,000</u>	<u>30,000</u>
		<u>42,000</u>		<u>44,000</u>
Financed by:				
Capital		38,000		36,000
Add net profit		<u>10,000</u>		<u>15,000</u>
		48,000		51,000
Less drawings		<u>6,000</u>		<u>7,000</u>
		<u>42,000</u>		<u>44,000</u>

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Required:

- (a) Calculate the following ratios for A and B:
- | | |
|---|-----------|
| 1) Gross profit as percentage of sales | (2 marks) |
| 2) Net profit as percentage of sales | (2 marks) |
| 3) Expenses as percentage of sales | (2 marks) |
| 4) Stock turnover | (2 marks) |
| 5) Rate of return of net profit on capital employed | (4 marks) |
| 6) Current ratio | (2 marks) |
| 7) Acid test ratio | (2 marks) |
| 8) Debtor/sales ratio | (2 marks) |
| 9) Creditor/purchases ratio | (2 marks) |

- (b) Which business seems to be the most efficient? Give possible reasons. (5 marks)

(Total = 25 marks)

QUESTION 2:

Thabile and Lungile entered into a joint venture, effective from 1st January 2009, to repair television sets and audio equipment. It was agreed that Thabile should secure the orders, collect the items from the customers, transport them to Lungile (who would then carry out the repair work), deliver them back to the customers and collect the cash.

Each party was to charge his expenses against the joint venture and profits and losses were to be shared Thabile 2/5 and Lungile 3/5, settlement to be made quarterly. During the first quarter of 2009, the following transactions arose:

- Thabile assisted in financing Lungile by sending her a cheque for E600.
- Lungile bought a stock of spares, components and other materials of E700 of which E400 worth were still in stock at 31 March 2009.
- Thabile placed advertisements in local papers at a cost of E100, and collected cash from customers amounting to E4,900
- Wages paid to part-time staff by Lungile totalled E1,950 and by Thabile, E550. An allowance of E55 was made to Thabile for vehicle running expenses and E200 to each party for use of their general services.

Required:

- (a) Prepare a joint venture accounts in the books of each venturer (17 marks)
- (b) Prepare the memorandum joint venture account, for the March quarter 2009 (8 marks)

(Total 25 marks)

QUESTION 3:

Takhe Ltd opened a new branch shop on 1 January 2009. All goods for sale at the shop are purchased by the head office and charged to the branch at retail selling price which is cost plus one-third. The branch banks its takings, without deduction, for the credit of the head office. Although it is a cash business the branch manager is allowed to give credit in a few special cases.

The following information is relevant for the three months to 31 March 2009:

	E
Purchases	10,550
Sales at head office	1,600
Goods sent by head office to branch at selling price	12,000
Cash sales at branch	8,000
Credit sales by branch	2,000
Goods returned to head office at selling price	600
Cash collected from branch debtors	1,800
Branch expenses	1,000
Head office expenses	200
Closing stock at branch at invoice price	1,380
Closing stock at head office	800

You are required to show:

- (a) The branch stock account using the memoranda columns method or double column system **(18 marks)**
 (b) The branch debtors account **(7 marks)**

(Total = 25 marks)

QUESTION 4:

(a)

List the **any five** headings in the cash flow statement, as required by FRS1, give one suitable example of the information to be included under each of the headings.

(10 marks)

(b)

(i) Explain why "Directors Fees" are treated as an expense when measuring profit, but "Partnership Salaries" are treated as an appropriation of profit. **(8 marks)**

(ii) Explain what is Goodwill and reasons for payment of Goodwill. **(7 marks)**

(Total 25 marks)

END